

# **Audit Report**

**AUDIT OF GSA'S  
LIVING QUARTERS ALLOWANCE PROCESS  
REPORT NUMBER: A090103/B/F/F09009  
SEPTEMBER 4, 2009**

**Office of Inspector General  
General Services Administration**



**Office of Audits**

**GENERAL SERVICES ADMINISTRATION**  
**OFFICE OF INSPECTOR GENERAL**

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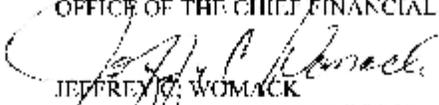
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**SEPTEMBER 4, 2009**



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

September 4, 2009

MEMORANDUM FOR: KATHLEEN M. TURCO  
CHIEF FINANCIAL OFFICER  
OFFICE OF THE CHIEF FINANCIAL OFFICER (B)

FROM:   
JEFFREY C. WOMACK  
DEPUTY ASSISTANT INSPECTOR  
GENERAL FOR AUDITING  
FINANCE AND ADMINISTRATIVE AUDIT OFFICE (JA-F)

SUBJECT: Audit of GSA's Living Quarters Allowance Process  
Report Number A000103/B/T/F09009

Attached is a copy of the subject report. The report presents the results of our Audit of GSA's Living Quarters Allowance Process. The report was prepared by the Finance and Administrative Audit Office (JA-F) under the Inspector General's continuing responsibility to assist GSA management through independent reviews of its operations. A draft report was previously provided to your office for review and comment.

As required by GSA Order ADM P 2030.2C, please furnish a time phased action plan to address the report recommendations and the Management Decision Record within 60 days of the report date. Your office should complete Section B on the Management Decision Record. Your action plan and the Management Decision Record should be submitted to the Principal Deputy Assistant Inspector General for Auditing (JAD), with a copy to the Internal Control and Audit Division (BEL).

Also, to help us improve our customer service, we have attached a Customer Satisfaction Survey. We ask that the primary user of the report complete the survey and return it to the Director, Audit Operations Staff (JAO).

In addition, please remember that the National Defense Authorization Act, Section 810, Resolution of Audit Recommendations, requires that final actions on all management decisions be completed within 12 months. The Office of Inspector General must report any uncompleted actions in its semiannual Report to Congress.

I would like to express my appreciation for the courtesies and assistance provided by your staff during the audit. If you have any questions, please me at (202) 501-0006.

Attachments

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***EXECUTIVE SUMMARY***

**Purpose**

The objective of the audit was to determine whether the General Services Administration (GSA) is in compliance with the Department of State Standard Regulations (DSSR) Section 130: Living Quarters Allowance.

**Background**

The Living Quarters Allowance (LQA) process is governed by DSSR Section 130, which authorizes the payment of an LQA grant for the annual cost of suitable living quarters for the employee and his/her family living abroad. The LQA rates are designed to cover substantially all of the average employee's costs for rent, heat, light, fuel, gas, electricity, water, local taxes, insurance required by law, and agent's fees required by law or custom. DSSR Section 130 also stipulates that an employee shall receive the lesser of the maximum living quarters allowance rate that is authorized by the State Department or an estimation of the actual living expenses. GSA employees stationed outside the Continental United States, who purchase or rent living quarters, are eligible to receive an LQA and are required to follow DSSR 130 when processing an LQA request. In Fiscal Year (FY) 2008, GSA had 20 employees living abroad whose LQA totaled \$657,947.

The Office of Inspector General's (OIG) audit of the LQA process was in response to a request by the Office of the Chief Financial Officer (OCFO). Management noted in previous years that the former Federal Technology Service (FTS) and Federal Supply Service (FSS) were inconsistent in determining the initial LQA disbursement amounts (i.e., maximum allowed versus supported cost estimate). This inconsistency resulted in some employees owing GSA at the end of their respective reconciliation period.

The LQA process for the Federal Acquisition Service (FAS)<sup>1</sup> is administered by the Mid-Atlantic Region (Region 3) and the Pacific Rim Region (Region 9). Both regions have personnel designated as coordinators, who are responsible for assisting FAS employees receiving an LQA. The Mid-Atlantic Region is responsible for employees living in Europe (Italy and Germany), while the Pacific Rim Region assists FAS employees living in Asia (Japan and Korea). The coordinators' responsibilities include processing LQA applications and reconciliation packages

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<sup>1</sup> FTS and FSS operated as separate entities before being merged to create the new Federal Acquisition Service (FAS) on October 6, 2006.

before they are sent to the National Payroll Branch (NPB) for disbursement. The NPB, located in Kansas City, is responsible for processing all LQA applications, annual reconciliation packages, and disbursements.

### **Results in Brief**

Our audit disclosed that GSA did not consistently adhere to DSSR 130 when processing LQA applications and reconciliation packages. Specifically, we noted the following:

- Required documentation for processing LQAs was nonexistent and/or incomplete;
- An annual reconciliation package was not submitted; and,
- Rent expense claimed for a personally owned living quarters could not be verified.

### **Recommendations**

We recommend that the OCFO, in consultation with FAS, Public Buildings Service (PBS) and the Office of the Chief Information Officer (OCIO):

1. Ensure that all participants of the LQA process are in compliance with DSSR Section 130 by developing and implementing an agency-wide policy that governs the LQA process to include roles and responsibilities, and specific procedures designed to ensure that the LQA application and reconciliation processes are properly reviewed and monitored by both designated regional coordinators and NPB officials before any disbursements are authorized.
2. Review the reconciliation packages for the employee who has not reconciled since 2002 and the employee who received an LQA for personal living quarters to determine whether any overpayments were paid, and if necessary, recoup any excess LQA payments.

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***INTRODUCTION***

**Background**

The Living Quarters Allowance (LQA) process is governed by DSSR Section 130, which authorizes the payment of an LQA grant for the annual cost of suitable living quarters for the employee and his/her family living abroad. The LQA rates are designed to cover substantially all of the average employee's costs for rent, heat, light, fuel, gas, electricity, water, local taxes, insurance required by law, and agent's fees required by law or custom. DSSR Section 130 also stipulates that an employee shall receive the lesser of the maximum living quarters allowance rate that is authorized by the State Department or an estimation of the actual living expenses. GSA employees stationed outside the Continental United States, who purchase or rent living quarters, are eligible to receive an LQA and are required to follow DSSR 130 when processing an LQA request. In Fiscal Year (FY) 2008, GSA had 20 employees living abroad whose LQA totaled \$657,947.

The Office of Inspector General's (OIG) audit of the LQA process was in response to a request by the Office of the Chief Financial Officer (OCFO). Management noted in previous years that the former Federal Technology Service (FTS) and Federal Supply Service (FSS) were inconsistent in determining the initial LQA disbursement amounts (i.e., maximum allowed versus supported cost estimate). This inconsistency resulted in some employees owing GSA at the end of their respective reconciliation period.

The LQA process for the Federal Acquisition Service (FAS)<sup>2</sup> is administered by the Mid-Atlantic Region (Region 3) and the Pacific Rim Region (Region 9). Both regions have personnel designated as coordinators, who are responsible for assisting FAS employees receiving an LQA. The Mid-Atlantic Region is responsible for employees living in Europe (Italy and Germany), while the Pacific Rim Region assists FAS employees living in Asia (Japan and Korea). The coordinators' responsibilities include processing of the LQA applications and reconciliation packages before they are sent to the National Payroll Branch (NPB) for disbursement. The NPB, located in Kansas City, is responsible for processing all LQA applications, annual reconciliation packages, and disbursements.

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<sup>2</sup> FTS and FSS operated as separate entities before being merged to create the new Federal Acquisition Service (FAS) on October 6, 2006.

### **Objectives, Scope, and Methodology**

The objective of the audit was to determine whether GSA is in compliance with DSSR Section 130. To accomplish the audit objective, we included all 20 GSA employees who received an LQA during FY 2008 (October 1, 2007 through September 30, 2008) in our test work.

We obtained and reviewed applicable Federal guidance that regulates the LQA process – the DSSR Section 130. In addition, we interviewed regional coordinators and NPB officials responsible for processing LQA applications and payments. Finally, we obtained and reviewed supporting documentation (i.e., SF-1190s, DSSR-130s, and receipts and financial data) relating to the test items from NPB and regional coordinators to ensure compliance with the DSSR 130.

The audit field work, including site visits, regional correspondence, research, and analysis was conducted during the period of January 2009 to May 2009 and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

## ***RESULTS OF AUDIT***

### **Results in Brief**

Our audit disclosed that GSA did not consistently adhere to DSSR 130 when processing LQA applications and reconciliation packages. Specifically, we noted the following:

- Required documentation for processing LQAs were nonexistent and/or incomplete;
- An annual reconciliation package was not submitted; and,
- Rent expense claimed for a personally owned living quarters could not be verified.

### **Audit Finding**

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**Guidance issued by the State Department was not consistently adhered to by GSA while administering the LQA process.**

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DSSR Section 132.5 “Costs” specifically requires the following with regards to the LQA application and reconciliation process:

*Employees shall submit written estimates of costs, or actual costs if they are known, to the head of agency on Section 960 LQA Annual/Interim Expenditures Worksheet attached to the SF-1190, Foreign Allowances Application, Grant, and Report, whenever an LQA grant commences. Thereafter, each employee shall show the actual annual expenses of rent and utilities, supported by receipts or other satisfactory evidence, whenever requested by the officer designated to grant allowances, the Department of State, or other responsible authority. (See also Sections 077.2 and 134.16.)*

With respect to personally owned living quarters, DSSR Section 136 “Personally Owned Quarters” states the following:

*When quarters occupied by an employee are owned by the employee or the spouse, or both, an amount up to 10 percent of original purchase price (converted to U.S. dollars at original exchange rate) of such quarters shall be considered the annual rate of his/her estimated expenses for rent. Only the expenses for heat, light, fuel, (including gas and electricity), water, garbage and trash disposal and in rare cases land rent, may be added to determine the amount of the employee's quarters allowance in accordance with Section 134. The amount of the rental portion of the allowance (up to 10 percent of purchase price) is limited to a period not to exceed ten years at which time the employee will be entitled only to above utility expenses, garbage and trash disposal, plus land rent.*

During our audit of GSA's LQA process, we noted that GSA did not consistently adhere to DSSR 130. Specifically, we noted instances in which SF-1190s, *Foreign Allowances Application, Grant, and Report*, used to initiate LQA payments were nonexistent. We also noted instances in which the initial SF-1190s and annual reconciliation packages did not contain all required signatures. According to the response the OCFO submitted to our Notification of Findings, the regional coordinators and NPB officials were interpreting which office is responsible for certifying the SF-1190s differently.

In addition, we noted that one employee, who works for the Office of the Chief Information Officer (OCIO), did not reconcile LQA related expenses between 2002 and 2009. NPB disbursed approximately \$160,000 in LQA payments to the employee during this period; however, could not provide any supporting documentation to substantiate the total amount disbursed.

Lastly, we noted that another employee did not have sufficient documentation to substantiate the validity of the "rent" expenses claimed for a personally owned living quarters. This employee claimed an annual rent expense of \$16,500 over the past eight years for a grand total of \$132,000. Based on our review of the documentation submitted, the purchase price of the property appears to be approximately \$120,000, using the original exchange rate<sup>3</sup>; therefore, the employee should have been claiming \$12,000 a year. Consequently, it appears that the employee received an overpayment of approximately \$36,000 [(\$16,500 – \$12,000)\*8 years].

Based on our testing, we concluded that these conditions exist because GSA does not have an agency-wide policy stipulating the roles and responsibilities, and specific procedures required to properly administer the LQA application and reconciliation process throughout all services and staff offices. Furthermore, this illustrates a lack of oversight regarding LQA disbursements at NPB.

Without sufficient documentation to process LQA applications and reconciliation packages, there is no reasonable assurance that LQA payments disbursed to employees are valid.

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<sup>3</sup> To calculate the original purchase price of the home, we used the following formula:

$$190.000.000 \text{ lire (Purchase price per the deed)} + 7.600.000 \text{ (4\% IVA tax)} = 197.600.000 \text{ lire}$$

$$197.600.000 \text{ lire (Purchase price in lire)} / 1.644 \text{ (original exchange rate)} = \underline{\$120,194.65}$$

## ***CONCLUSION***

Our audit of GSA's LQA process found instances where required documentation for processing LQAs were nonexistent and/or incomplete; an annual reconciliation package was not submitted; and rent expense claimed for a personally owned living quarters could not be verified. Consequently, we conclude that GSA did not consistently adhere to the requirements set forth by DSSR 130.

## ***RECOMMENDATIONS***

We recommend that the OCFO, in consultation with FAS, Public Buildings Service (PBS) and OCIO:

1. Ensure that all participants of the LQA process are in compliance with DSSR Section 130 by developing and implementing an agency-wide policy that governs the LQA process to include roles and responsibilities, and specific procedures designed to ensure that the LQA application and reconciliation processes are properly reviewed and monitored by both designated regional coordinators and NPB officials before any disbursements are authorized.
2. Review the reconciliation packages for the employee who has not reconciled since 2002 and the employee who received an LQA for personal living quarters to determine whether any overpayments were paid, and if necessary, recoup any excess LQA payments.

## ***MANAGEMENT'S RESPONSE***

Management's response dated August 25, 2009 states they concur with the audit finding and recommendations noted in the audit report.

## ***MANAGEMENT CONTROLS***

The objective of our audit was to determine whether GSA is in compliance with DSSR Section 130. As part of the audit, we reviewed the controls over the LQA application and maintenance process, as well as the reconciliation process. During our audit, we noted concerns regarding the completeness and the maintenance of an audit trail of the forms required to initiate and validate LQA payments. In addition, we identified instances where documented authorization for LQA payments did not exist. We have included recommendations in this report to address these issues.

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**APPENDIX A**

**Report Distribution\***

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Assistant Inspector General for Investigations (JI)

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*\* Audit report distributed electronically.*